

## Message Text

CONFIDENTIAL

PAGE 01 KUALA 00530 230343Z  
ACTION EA-12

INFO OCT-01 ISO-00 ONY-00 SS-15 /028 W  
-----105482 230346Z /64  
P 200915Z JAN 78  
FM AMEMBASSY KUALA LUMPUR  
TO SECSTATE WASHDC PRIORITY 1855

C O N F I D E N T I A L KUALA LUMPUR 0530

STADIS////////////////////////////////////

EA ONLY

E.O.11652: GDS  
TAGS: ECON, MY  
SUBJECT: EAST ASIAN ECONOMIC POLICY REVIEW

REF: A) 77 KUALA LUMPUR 1793, B) 77 STATE 299030 C) KUALA LUMPUR  
0316

1. WE HAVE REVIEWED THE ECONOMIC ELEMENTS OF THE 1977 PARM  
EXERCISE, AND STILL SUBSCRIBE TO THE OPINIONS WE EXPRESSED  
THEN. WE WOULD, HOWEVER, LIKE TO SUGGEST A SLIGHT CHANGE OF  
EMPHASIS WITH REGARD TO TIN AND RUBBER. ON TIN, WE ARE NO  
LONGER COMPLETELY CONVINCED THAT HEAVY TAXATION AND REFUSAL  
TO GRANT OR RENEW LICENSES FOR NON-MALAYS ARE THE PRINCIPAL  
CAUSES OF THE CONTINUING DECLINE IN MALAYSIAN TIN PRODUCTION  
(SEE REF C). CERTAINLY, THEY ARE NOT THE ONLY CAUSES.  
CONSEQUENTLY, WE WOULD REWORD COURSE OF ACTION 1. A. TO  
READ "... USE THAT FORUM TO CONTINUE TO URGE THE GOM TO  
TAKE MEASURES TO EXPAND TIN PRODUCTION". ON RUBBER, (COURSE  
OF ACTION 1.B.) WE SHOULD AGREE TO ENTER INTO NEGOTIATIONS  
WITH THE PRODUCERS AND OTHER CONSUMERS LEADING TO AN INTER-  
NATIONAL RUBBER AGREEMENT. THE PRICE OF NATURAL RUBBER HAS  
A SIGNIFICANT EFFECT ON RURAL INCOMES IN MALAYSIA, WHERE  
ROUGHLY 500,000 MOSTLY MALAY SMALLHOLDERS ARE ENGAGED IN  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 KUALA 00530 230343Z

ITS PRODUCTION. CONSEQUENTLY, STABILIZATION OF NATURAL  
RUBBER PRICES IS AN IMPORTANT ELEMENT IN MALAYSIA'S POLITICAL  
STABILITY. THIS WAS DEMONSTRATED IN THE FALL OF 1974,  
WHEN A DROP IN RUBBER PRICES LED TO WIDESPREAD DEMONSTRATIONS  
IN THE RUBBER PRODUCING AREAS.

2. 1977 POLITICAL AND ECONOMIC DEVELOPMENTS.

A) CONTINUED STRONG ECONOMIC PERFORMANCE (OVER 8 PERCENT REAL GROWTH IN GNP) RESULTING FROM SUSTAINED STRONG DEMAND AND HIGH PRICES FOR MALAYSIA'S COMMODITIES HELPED ABATE POLITICAL TENSIONS AND WEAKEN THE APPEAL OF THE COMMUNIST INSURGENTS. MALAYSIA'S ECONOMIC STRENGTH ENABLED IT TO BORROW COMMERCIALLY AT RATE LESS THAN ONE PERCENT ABOVE LIBOR. THE GOM BORROWED NOT BECAUSE IT NEEDED THE CAPITAL BUT BECAUSE ITS OWN LARGE RESERVES ARE INVESTED IN HIGHER YIELDING ASSETS. THE IMPLICATIONS FOR ANY SUBSTANTIAL U.S. CONCESSIONARY ASSISTANCE ARE OBVIOUS.

B) THE ASEAN SUMMIT MEETINGS IN AUGUST 1977 STRENGTHENED THE COHESION OF ASEAN AND CREATED AT LEAST THE IMAGE OF ASEAN AS AN IMPORTANT POLITICAL FORCE. CLEARLY, IT HAS ASSUMED HIGH PRIORITY IN THE FOREIGN POLICIES OF ITS MEMBERS. WHERE POSSIBLE, WE WILL WANT TO TAKE STEPS THAT WILL HELP STRENGTHEN ASEAN. FOR OUR COMMENTS ON THE US/ASEAN RELATIONSHIP SEE 77 KUALA LUMPUR 9379.

C) THE DECEMBER CABINET CHANGES EMPHASIZED THE CONCERN OF THE TOP LEADERSHIP OVER THE LAG IN PRIVATE FOREIGN AND DOMESTIC INVESTMENT. THE APPOINTMENT OF DEPUTY PRIME MINISTER MAHATHIR AS MINISTER OF TRADE AND INDUSTRY AS WELL WAS ALMOST UNANIMOUSLY INTERPRETED AS A MOVE TO ENCOURAGE INVESTMENT. CONSEQUENTLY, WE EXPECT THE INVESTMENT CLIMATE TO IMPROVE.  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 KUALA 00530 230343Z

MILLER

CONFIDENTIAL

NNN

## Message Attributes

**Automatic DecapTIONing:** Z  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC PROGRAMS, INTELLIGENCE ASSESSMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 20 jan 1978  
**DecapTION Date:** 20 Mar 2014  
**DecapTION Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978KUALA00530  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780033-0525  
**Format:** TEL  
**From:** KUALA LUMPUR  
**Handling Restrictions:**  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t19780141/aaaabigj.tel  
**Line Count:** 95  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** eb22c7e1-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** ONLY, STADIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 2  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** ONLY, STADIS  
**Reference:** 77 KUALA LUMPUR 1793, 77 STATE 299030, 78 KUALA LUMPUR 1977  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 02 jun 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3742073  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** EAST ASIAN ECONOMIC POLICY REVIEW  
**TAGS:** ECON, MY  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/eb22c7e1-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014